



Controller *John Chiang*
California State Controller's Office



Tax Filing Tips for New Business Owners

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Voice of:

**Jason Montiel, Moderator
State Controller's Office**



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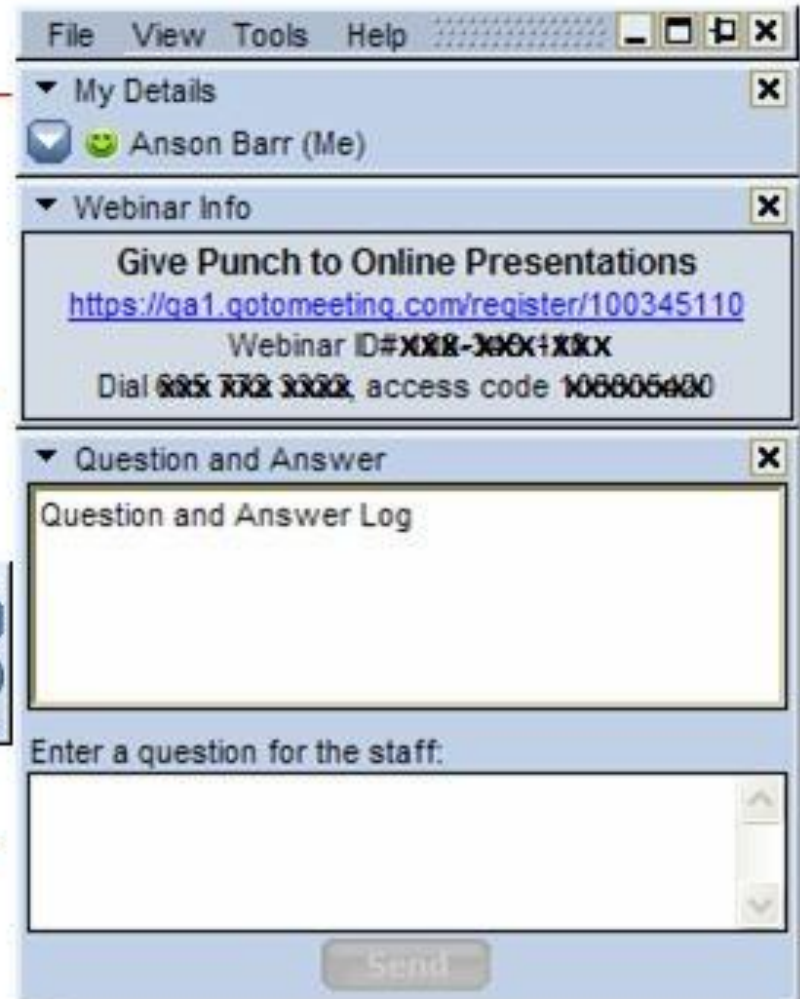
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Let's take a poll!

Welcome by Controller John Chiang

Voice of:



**State Controller
John Chiang**

Today's presentation:

- **Selecting a tax practitioner**
- **Forms and filing requirements**
- **How to be in compliance**
- **Additional Resources**

Sign up for California Strong events at: www.californiastrong.ca.gov

Search for unclaimed property at: www.claimit.ca.gov

Presenting for the Franchise Tax Board

- **More than 25 years experience with the Franchise Tax Board (FTB)**
- **Spent 20 years as an auditor, hearing officer and subject matter expert with the FTB including:**
 - **Nonresident taxation and residency determinations**
 - **Personal income taxation**
 - **Partnerships**
 - **S-Corporations**
 - **Limited Liability Companies (LLCs)**
- **Masters of Science degree in Taxation**



Brenda Voet
Franchise Tax Board



Story of Stick Figure Sam

Presenter:

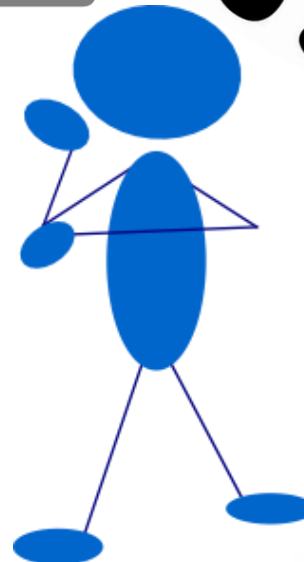
Brenda Voet

Franchise Tax Board

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Stick Figure Sam is a new business owner with lots of questions about filing his first business tax return.

Hmm...How
difficult is this
going to be?



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Why should Sam keep records?

Presenter:

Brenda Voet

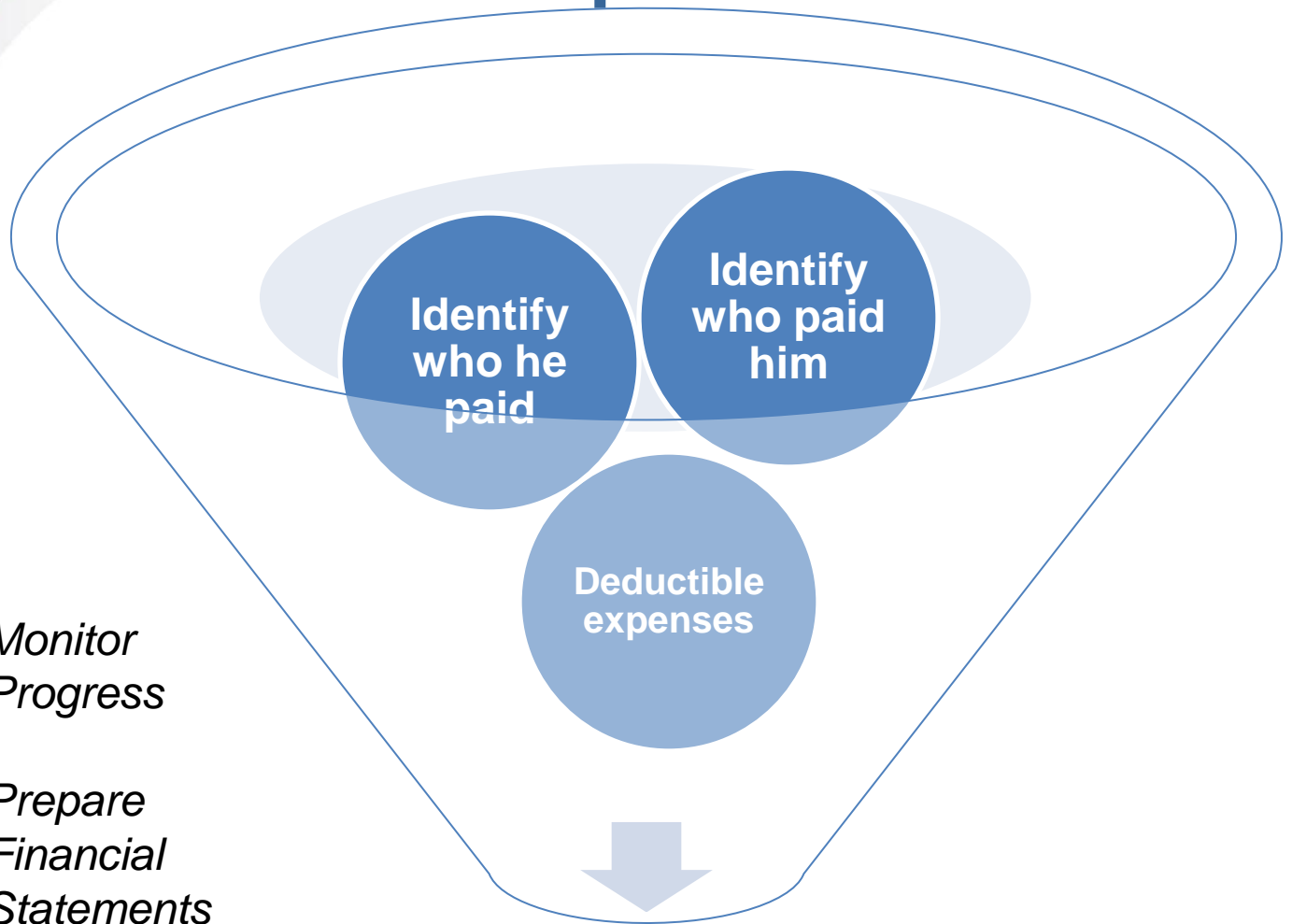
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*Monitor
Progress*



*Prepare
Financial
Statements*



Prepare Tax Return

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What records should Sam keep?

Presenter:

Brenda Voet

Franchise Tax Board

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INCOME

- * Sales slips
- * Invoices sent out
- * Bank deposit slips
- * Cash register tape receipts
- * Credit card sales slips

EXPENDITURES

- * Paid bills
- * Invoices paid
- * Receipts
- * Canceled checks



How should Sam record his transactions?

Presenter:

Brenda Voet

Franchise Tax Board

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**Daily summary
of cash
receipts**

**Monthly
summary of
cash receipts**

**Check
disbursements
journal**

**Depreciation
worksheet**



Presenter:

Brenda Voet

Franchise Tax Board

brenda.voet@ftb.ca.gov

What can Sam deduct?

Typical expenses

☐ Advertising

☐ Legal fees

☐ Car

☐ Start-up costs

☐ Depreciation

☐ Supplies and materials

☐ Home office

☐ Utilities

MORE INFORMATION AVAILABLE IN:

IRS Publication 535, Business Expenses

IRS Publication 463, Travel, Entertainment, Gift and Car Expenses

FTB Publication 984, Common Business Expenses for the Business Owner



Presenter:

Brenda Voet

Franchise Tax Board

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Who can help Sam with books and records?



Bookkeepers

- * Handles accounts receivable, accounts payable, or payroll
- * Bookkeeping is purely math



Illustration by Chris Gash

Tax Return Preparers

Someone who prepares tax returns for individuals or small businesses



Accountants

- * Sets up the bookkeeping system, monitors it, and interprets results
- * Prepares financial statements



Where can Sam get additional information?

Presenter:

Brenda Voet

Franchise Tax Board

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IRS Publication 334

Tax Guide for Small Business

IRS Publication 583

Starting a Business and Keeping Records

FTB Form 982

How to Select an Income Tax Return Preparer



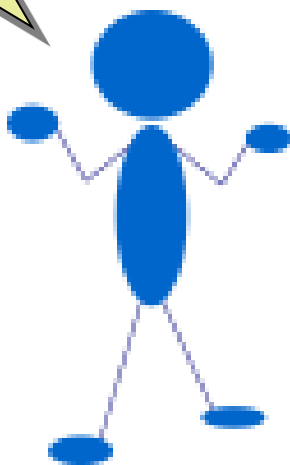
Sam must report all his income & expenses

Presenter:

Brenda Voet
Franchise Tax Board
brenda.voet@ftb.ca.gov

Sam is worried! He has no idea what to report to the tax authorities. What should he do?

EEK! What to do with my information?



The image shows a collage of California tax forms. At the top left is a '2012 Estimated Tax' form (1040-ES) with a 'Payment Voucher' section. To its right is a 'California Form 540-ES' for 'Tax for Individuals' with a 'File and Pay by June 15, 2012' deadline. Below these is a 'Schedule C (Form 1040) Profit or Loss From Business' form for the year 2011. The Schedule C form includes sections for business information, accounting method, and income reporting. The forms are partially overlapping and tilted, suggesting a collection of documents.



Presenter:

Brenda Voet
Franchise Tax Board
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Sam should report his business activity on Schedule C

SCHEDULE C (Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Profit or Loss From Business

(Sole Proprietorship)

► For information on Schedule C and its instructions, go to www.irs.gov/schedulec

► Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.

OMB No. 1545-0074

2011

Attachment
Sequence No. **09**

Name of proprietor

Social security number (SSN)

A Principal business or profession, including product or service (see instructions)

B Enter code from instructions



C Business name. If no separate business name, leave blank.

D Employer ID number (EIN), (see instr.)

E Business address (including suite or room no.) ►

City, town or post office, state, and ZIP code

F Accounting method: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) ►

G Did you "materially participate" in the operation of this business during 2011? If "No," see instructions for limit on losses . ☐ Yes ☐ No

H If you started or acquired this business during 2011, check here ► ☐

I Did you make any payments in 2011 that would require you to file Form(s) 1099? (see instructions) ☐ Yes ☐ No

J If "Yes," did you or will you file all required Forms 1099? ☐ Yes ☐ No

Part I Income

1a Merchant card and third party payments. For 2011, enter -0-

1a

b Gross receipts or sales not entered on line 1a (see instructions)

1b

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Sam will pre-pay income and self-employment taxes on these forms

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Form 1040-ES
Department of the Treasury
Internal Revenue Service

2012 Estimated Tax

File only if you are making a payment of estimated tax by check or money order. Mail this voucher with your check or money order payable to "United States Treasury." Write your social security number and "2012 Form 1040-ES" on your check or money order. Do not send cash. Enclose, but do not staple or attach, your payment with this voucher.

Payment Voucher 4
OMB No. 1545-0074
Calendar year—Due Jan. 15, 2013

Amount of estimated tax you are paying by check or money order.

Dollars	Cents

Your social security number

Your first name and initial

Your last name

If joint payment, complete for spouse

Spouse's last name

Spouse's social security number

TAXABLE YEAR

CAUTION: You may be required to pay electronically. See instructions.

CALIFORNIA FORM

2012 Estimated Tax for Individuals

File and Pay by June 15, 2012

540-ES

Fiscal year filers, enter year ending month: Year 2013

Your first name	Initial	Last name	Your SSN or ITIN
If joint payment, spouse's/RDP's first name	Initial	Last name	Spouse's/RDP's SSN or ITIN
Address (number and street, PO Box, or PMB no.)			Apt no./Ste. no.
City (If you have a foreign address, see instructions)			State ZIP Code

Do not combine this payment with payment of your tax due for 2011. Using black or blue ink, make your check or money order payable to the "Franchise Tax Board." Write your social security number or individual taxpayer identification number and "2012 Form 540-ES" on it. Mail this form and your check or money order to: FRANCHISE TAX BOARD, PO BOX 942867, SACRAMENTO CA 94267-0031.

If no payment is due, do not mail this form.

See Section A of the instructions for an alternative to using this form.

Amount of payment

00

For Privacy Notice, get form FTB 1131.

1201123

0

Form 540-ES 2011



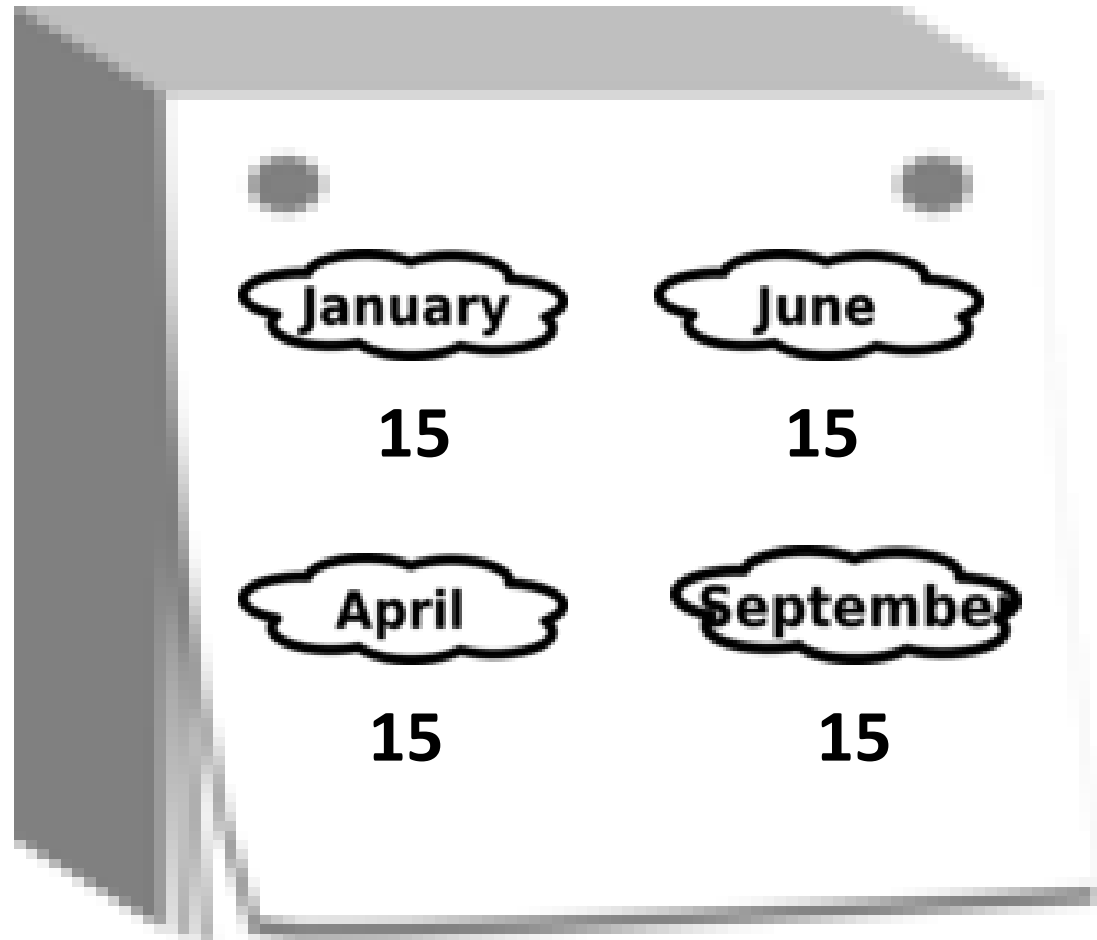
Sam should make estimated tax payments on these dates:

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What will Sam owe for Self-Employment Tax?

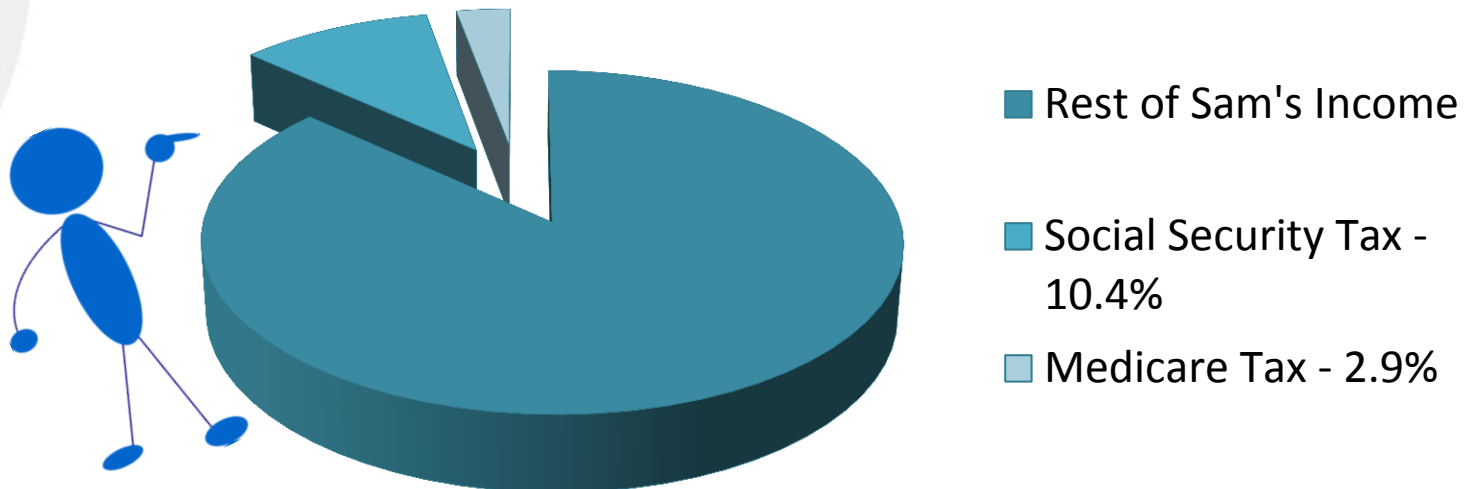
Presenter:

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Self-Employment tax is the combination of Social Security and Medicare tax





Presenter:

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What should Sam do if he makes payments to an independent contractor of more than \$600

Step 1

- Have the contractor complete IRS form, W-9 and State Form FTB 590
- Keep copy of W-9 and 590 with tax records

Step 2

- Use information on W-9 and 590 to complete IRS form 1099-MISC
- Give 1099-MISC to contractor by January 31st
- File Copy A of 1099-MISC with IRS by February 28th

Step 3

- If Contractor fails to complete W-9 or 590 or provides incorrect/incomplete information, Sam must withhold and forward 28% of payment to IRS and 7% to FTB



Presenter:

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Under what circumstances would additional CA withholding be required?

- If Sam pays an independent contractor from outside California more than \$1500 each year to provide services
- If he distributes income from California sources:
 - Rents and royalties
 - Prizes and winnings
 - Income from pass-through entities
 - Gains from sale of real property



Here's where Sam can get more information on withholding

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**IRS Form W-9, Request for Taxpayer
Identification Number and Certification**

FTB Form 588, Nonresident Withholding Waiver

FTB Form 590, Withholding Exemption Certificate

**FTB Publication 1017, Resident and Nonresident
Withholding Guidelines**

**FTB Form 1076, Withholding on Nonresidents
with California Source Income**

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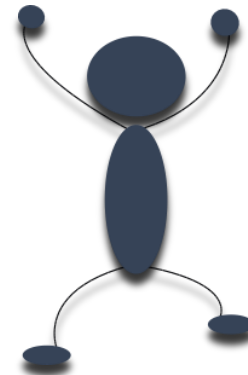
Brenda Voet

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What if Sam's business takes off and he wants to change form of ownership?

Sam wait! Make sure you read **IRS Publication 583**, *Starting a Business and Keeping Records*, see page 6. Also be sure to read **FTB Form 1123**, *Guide to Forms of Ownership*!





Presenter:

Let's take a poll!

Presenting for the Employment Development Department

- Over 20 years experience with the Employment Development Department (EDD)
- Spent 8 years as a tax auditor where he conducted audits of businesses to ensure they were in compliance with state payroll tax laws.
- As an Employment Tax Consultant for the past 12 years, Jimmy educates business owners, human resources professionals, and tax professionals on state payroll tax topics.
- Bachelor's degree in business administration/accounting from California State University, Los Angeles





Presenter:

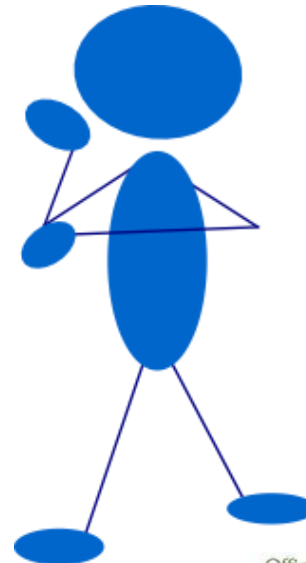
Jimmy Wong

EDD

james.wong@edd.ca.gov

Now Sam decides he wants to hire some help. What should he do?

It's getting busy around here! I need people to help me with all this work!



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Steps Sam should follow

Step 1

- Determine whether he is hiring an employee or a contractor

Step 2

- Comply with employer requirements (fed & state)
- Obtain workers' comp. insurance if hiring employee

Step 3

- Employees & contractors should fill out appropriate forms to be filed with tax authorities

Step 4

- Report the information to IRS and EDD.
- For convenience EDD offers electronic filing option



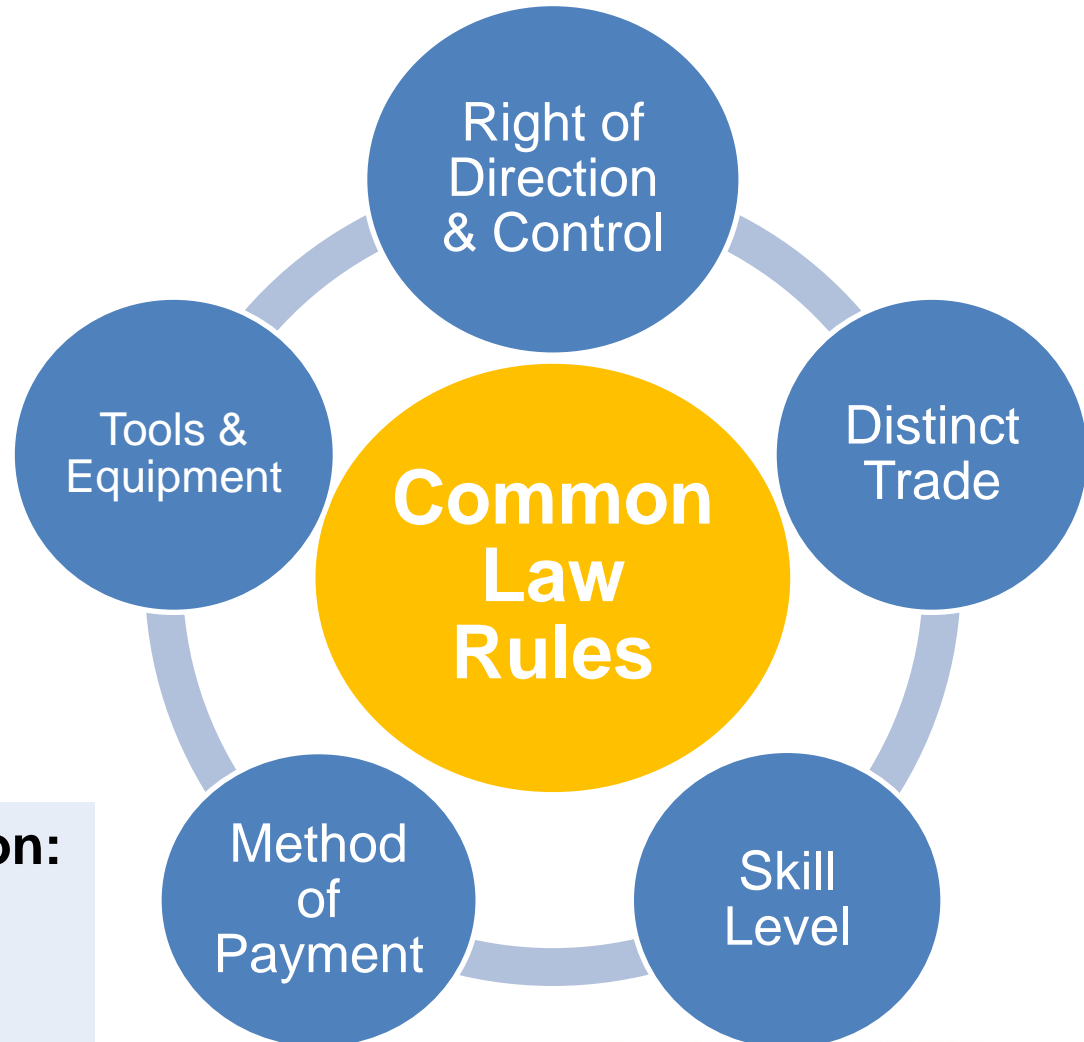
Presenter:

Jimmy Wong

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Step 1: Determine if using employees or contractors



For more information:

www.edd.ca.gov

Keywords:

DE 231, DE 1870



Step 2: Comply with employer requirements

Presenter:

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EDD

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- Obtain Federal Employer Identification Number with [Form SS-4](#)
- Obtain State Employer Account Number
- [DE 1](#), *Registration Form for Commercial Employers*
- Obtain a Workers' Compensation Insurance policy



Presenter:

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Step 3: Employees & contractors should fill out correct forms

	FEDERAL FORMS	STATE FORMS
EMPLOYEES	IRS W-4 I-9 (USCIS form) www.uscis.gov/i-9	DE-4 (if withholding status requires)
CONTRACTORS	IRS W-9	NONE

For more
information:

www.irs.gov

Keywords:

W-4, W-9

** Sam or his tax preparer must collect these forms so Sam can comply with his own employer reporting requirements (see next slide)*



Step 4: Report employee & contractor information

Presenter:

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	FEDERAL FORMS	STATE FORMS
FORMS SAM SUBMITS IF HE HIRES EMPLOYEES	IRS W-2 IRS 941 (Quarterly) IRS 940 (Annually)	DE-34 DE-9 (Quarterly) DE-9C (Quarterly)
FORMS SAM SUBMITS IF HE HIRES CONTRACTOR	IRS 1099-MISC (If paying more than \$600 per year)	DE-542 (Within 20 days of agreement or 15 days of payment)



How can Sam prevent penalties & interest?

Presenter:

Jimmy Wong
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- Classify workers properly
- Use electronic filing and payment methods to reduce errors
- File all documents and returns timely
- Make all payments timely and in full
- Respond timely to all correspondence
- Attend free seminars and workshops
- Call Taxpayer Assistance Center with questions: (888) 745-3886



Presenter:

Jimmy Wong
EDD

james.wong@edd.ca.gov

What e-services are available to help Sam?

- View UI tax rate and rate history
- Register new business (account number)
- View payment history, liability for each period, balance due
- Update mailing address online
- File more EDD tax forms online
- Pay with additional credit card payment options
- Access 24/7

For more information:

www.edd.ca.gov

Keyword: e-services

California Tax Service Center

www.taxes.ca.gov

IRS

www.irs.gov

800-829-4933

FTB

www.ftb.ca.gov

800-852-5711

BOE

www.boe.ca.gov

800-400-7115

EDD

www.edd.ca.gov

888-745-3886

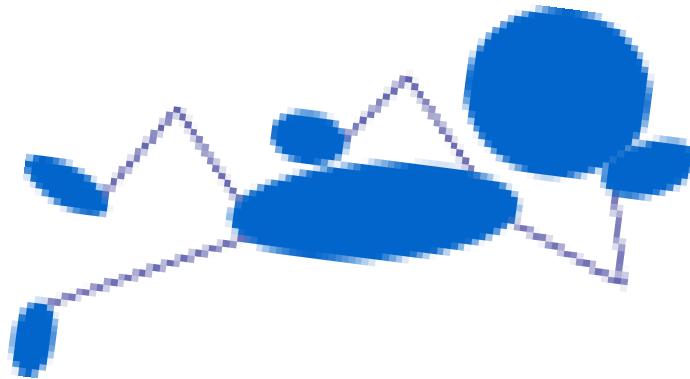


Presenter:

Jimmy Wong
EDD

james.wong@edd.ca.gov

Sam has taken steps to be in compliance. He now feels more relaxed!





Presenter:

Let's take a poll!

Questions?

Please type in your questions now.

Thank you!

View this presentation or sign up for
future events online at:

www.californiastrong.ca.gov

